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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 002403

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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [ENRG](#) [PGOV](#) [IZ](#)  
SUBJECT: DPM BARHAM SALIH DISCUSSES ECONOMIC LEGISLATION  
AND BUDGET EXECUTION

Classified By: Economic Minister Charles Ries for reasons 1.4 (b) and (d).

¶1. (C) Summary: In a July 17 introductory meeting with Economic Minister Ries, Deputy Prime Minister Barham Salih discussed economic reform legislation, budget execution and the International Compact with Iraq. DPM Salih said next week the Prime Minister would name Oil Advisor Thamir Ghadban to be the interim chair of the new National Investment Commission. He requested U.S. assistance in several areas including, budget execution, ministerial capacity building and the development of free trade zones in Anbar and Sulaimaniyah. Economic Minister noted that the presidential waiver had opened the way for \$500 million in US funding becoming available as early as July 27 which should help support PRTs and potential economic growth projects. End Summary.

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Economic Legislation  
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¶2. (C) Deputy Prime Minister (DPM) for Economic Affairs Barham Salih told Economic Minister Ries that negotiations on the hydrocarbon law were no longer substantive - it is now a political question. He said that Tawafuq needed time to come back on board and it should be given that time. He thought, however, the idea of a political leaders' summit held promise. He added that the one outstanding issue on the revenue law was the funding of strategic projects. DPM Salih said he had proposed a 10% budget cap for such projects during his recent visit in the KRG, and thought this could be an acceptable compromise. DPM Salih also confirmed that an agreement has been reached to have the Pesh Merga protect the Bayji-Kirkuk power line.

¶3. (C) DPM Salih described progress in implementing the investment law and the Fuel Import Liberalization Law (FILL). He said that the Prime Minister's economic advisor (and formally energy advisor) Thamir Ghadban would be named as the interim national Investment Committee chairman next week. This appointment would be temporary and is a key step in implementing the investment law, and DPM Salih stressed Ghadban's outstanding qualities.

¶4. (C) Turning to FILL implementing regulations, DPM Salih said the KRG had successfully become self-reliant in fuel imports, and though prices were high, supplies were adequate. "Baghdad needs to do the same," he said, "but the Ministry of Oil is reluctant to give up its import monopoly." The DPM also characterized the electricity situation as simply very difficult to fix. At a later point in the discussion he said the focus needed to be the immediate problems, more than medium term plans and approaches ) noting "we have to work with what we have" ) an apparent reference to Minister of Oil Shahrستاني.

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## BUDGET EXECUTION

15. (C) DPM Salih reported that the cabinet meeting earlier that day focused on budget execution and the Ministry of Defense's budget, with the Defense Minister saying that Foreign Military Sales (FMS) was a great vehicle for implementing the defense budget. (Note: Minister of Finance Jabr has reported to emboffs that the Ministry of Defense has not executed any of its current capital budget. End note.) DPM Salih said that unreliable data continued to be a problem and he wanted the U.S. Embassy's help in verifying the data received by his budget execution monitoring unit. Economic Minister Ries described the decision to put the FMIS (Financial Management Information System) program in abeyance after the kidnapping of Bearing Point contractors working at the Ministry of Finance, and said the U.S. would be looking for specific commitments from the Government of Iraq (GOI) on its contributions to and support for FMIS. DPM Salih urged us to discuss this issue with Minister of Finance Jabr, noting that FMIS was key to improved budget execution.

16. (C) DPM Salih said that the 607 contracting option had unfortunately become a political, not a funding, issue, with various ministries trying to make it an Iraqi sovereignty question. While he wasn't ruling it out indefinitely, for the present, 607 was a not a viable option. He noted, however, the Minister of Electricity has been authorized by the Council of Ministers to explore with the US ways to import fuel.

## ICI, BANKING, AND DEBT

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17. (C) "The mid-term International Compact report is too rosy," DPM Salih said, noting that Iraq has real problems and while there is nothing wrong with optimism, there is also a need for realism. He has come to the conclusion that the banking sector is more of an impediment than he had believed previously. He said the Iraq economy needs a stimulus, and added that Iraq's main problem, rivaling even the security issue, was an entrenched bureaucracy, citing the examples of the government's inability to take advantage so far of the Japanese and World Bank loans to illustrate how resistant the bureaucracy can be to even obviously advantageous opportunities. DPM Salih also discussed the Russian debt issue, and noted that Foreign Minister Zebari would soon be going to Moscow. He agreed it would be better for Minister of Finance Jabr to lead the talks, and confirmed that it was his impression the Russians were looking for a revival of the Lukoil contract as part of any deal but that the GoI did not want any linkage.

## REQUESTING U.S. ASSISTANCE

18. (C) DPM Salih requested U.S. involvement in a number of issues, including schools and ministerial capacity building. He noted the GoI had earmarked \$1.5 billion for new hospital construction. While U.S. financial assistance for this effort would not be necessary, the GoI may ask for U.S. technical advice. Salih also wanted our help and advice on a free trade zone for Sulaimaniyah, as well as a project for promoting cross border trade in Anbar (with Jordan), a development zone in Basrah, and an expansion of the micro-credit program in Baghdad. He also mentioned upcoming provincial business development fora ) on July 22 for Basra (which is having serious problems) and then one for Diyala. He promised to take part in a follow on "Summit-level" forum to be held in Ramadi in Anbar province, tentatively planned for August 26.

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